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DIA review(s) completed.

State Dept. review completed

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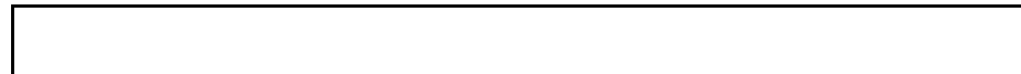
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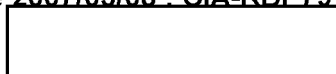
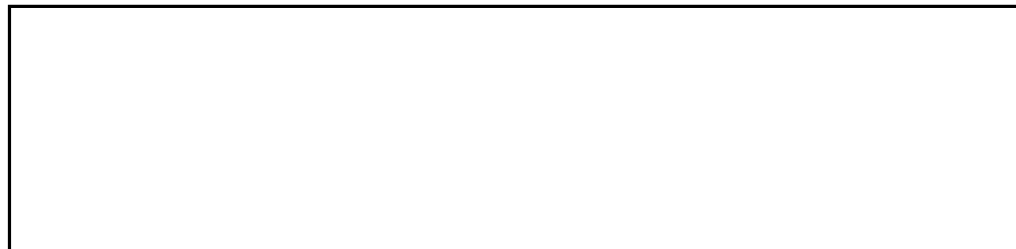
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CANADA - SOUTH KOREA

Ottawa announced on May 28 that it had granted South Korea a loan of \$380 million to finance the sale of a Canadian-produced nuclear power reactor. The sale, however, is still contingent upon agreement between the countries on bilateral safeguards.

There is little disagreement among Canadians on the purely commercial aspects of the reactor sale. Domestic opinion, however, has been uneasy about the possibility of Canada contributing to the proliferation of nuclear weapons following the explosion of a nuclear device by India last year using material from a Canadian-supplied reactor. Ottawa has insisted that prior to any further reactor sales agreements, the purchasers must accept International Atomic Energy Agency safeguards or their equivalent, as well as bilateral safeguards covering materials produced by the reactor and the technology provided by Canada. The Trudeau government has been under heavy domestic political pressure to insist on very strict bilateral safeguards.

Although South Korea has now ratified the Nuclear Non-Proliferation Treaty, completion of the sale is still dependent on agreement covering bilateral safeguards, especially on the touchy issue of restricting the transfer of Canadian nuclear technology. The tenor of Ottawa's announcement concerning the loan to South Korea may mean that the Canadians feel such an agreement is nearing completion.



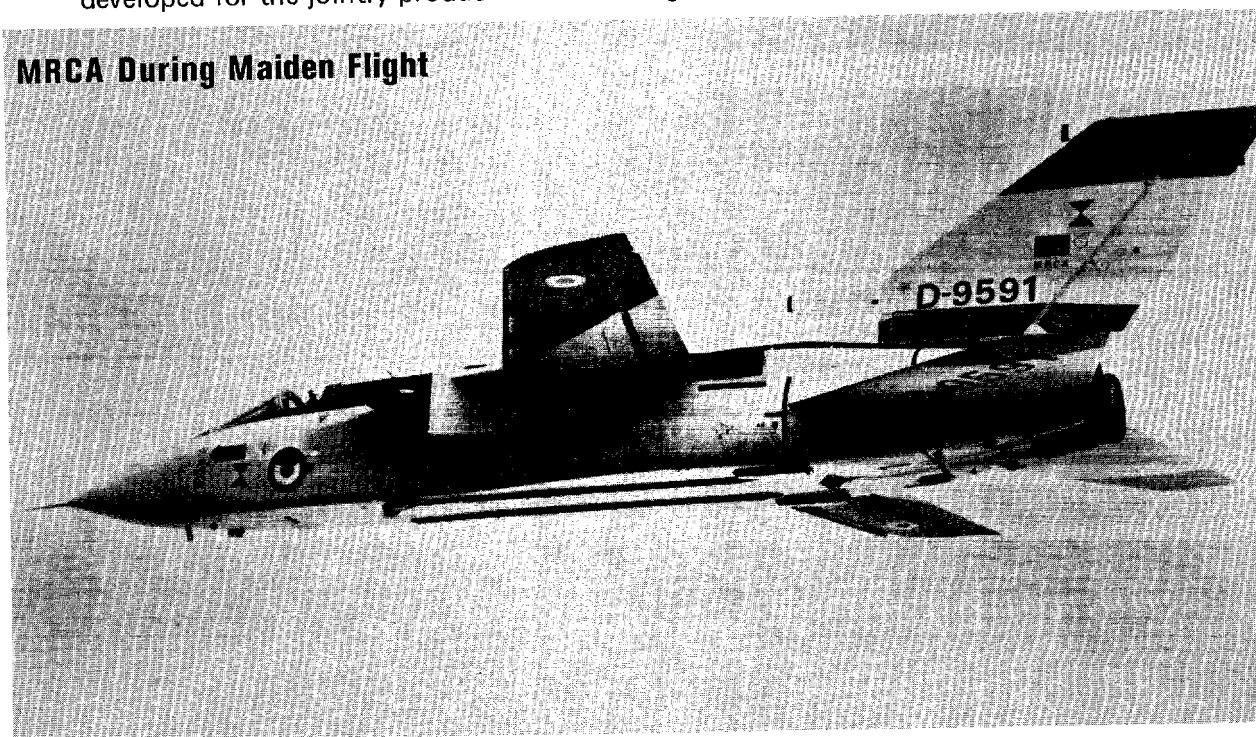
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WEST GERMANY - UK

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[redacted] the Germans are still unhappy with the Rolls Royce RB-199 engine that the British have developed for the jointly produced multirole fighter-bomber, the MRCA.

MRCA During Maiden Flight

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[redacted] noted the continuing design and production problems with the Rolls Royce engine and expressed interest in the General Electric F-404-400 engine that will power the US navy's F-18. [redacted] stated that the Ministry of Defense is under growing pressure to "get the MRCA into the air." He added that the ministry believes it must have a developed and proven engine for the MRCA in order to meet parliamentary requirements concerning costs and deadlines.

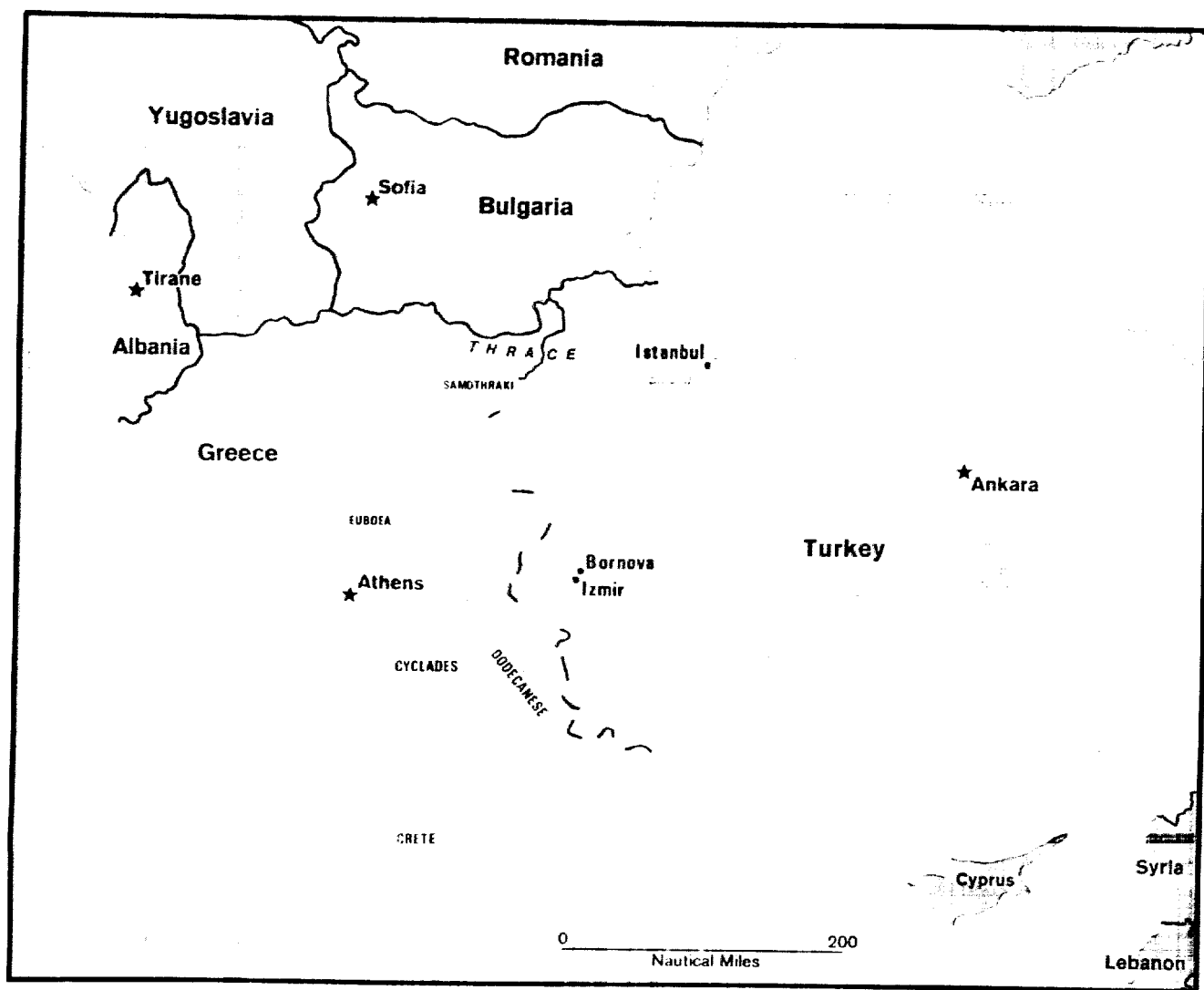
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Engine problems may also have influenced the decision not to show the MRCA at the Paris Air Show this week. The official explanation was that the appearance would take too much time away from prototype testing, which is already several months behind schedule.

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TURKEY-GREECE

Despite an apparent relaxation of tensions between Greece and Turkey, military activity by each provides evidence of continued preparations for possible hostilities. Neither side, however, is demonstrating an aggressive intent.

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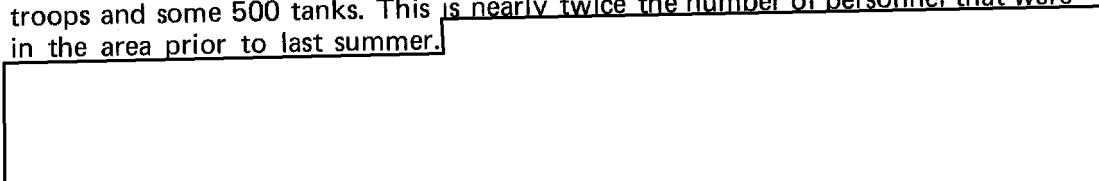


Since the Turkish invasion of Cyprus last July, the Hellenic Army has not only sent additional troops to the eastern Aegean Islands, but has also shifted some of its forces on the Greek mainland. Units in northern Greece, which had been oriented to defend Greece against Warsaw Pact forces in Bulgaria, are now in a defensive posture against the possibility of a Turkish invasion.

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two infantry divisions and an armored brigade are operationally ready along the border. Farther to the west, two additional infantry divisions and an armored division are in ready reserve. The two forces total about 45,000 to 50,000 troops and some 500 tanks. This is nearly twice the number of personnel that were in the area prior to last summer.

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USSR

The Soviets have offered several significant concessions intended to hasten the conclusion of the Conference on Security and Cooperation in Europe, but they continue to be inflexible on a number of the remaining points at issue.

The Soviet concessions apparently were timed to influence the NATO summit meeting at Brussels and to enhance the prospect for a summit-level conclusion to the security conference in July. During lunch on Wednesday with the heads of the US, UK, and French delegations, Soviet Deputy Foreign Minister Kovalev offered, as a "gesture of good will," to accept a number of Western proposals in the area of human contacts and information, which has been the key hurdle to completion of the negotiations. He said the USSR now accepts that section of the Western text which would facilitate international travel.

Kovalev also accepted the Western text intended to prevent the expulsion of journalists engaged in legitimate professional activity. This is a major Soviet concession on an issue many Western delegates had regarded as hopelessly deadlocked. Kovalev added that the USSR would meet the West halfway in terms of a commitment on the subject of family reunification. He also said Moscow would agree to a paragraph on international broadcasting that would avoid a statement on national responsibility for such transmissions.

The NATO allies, who began discussing the Soviet proposals Wednesday afternoon, generally have indicated a strong desire to wrap up the remaining issues. They are agreed, however, that these issues will require difficult and time-consuming negotiations, and that a united front may elicit additional Soviet concessions. The Soviets made no additional concessions yesterday when the East-West dialogue resumed.

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ARGENTINA

The resignation of two top officials of the Peronist Party reflects growing concern over the increasing concentration of power in the hands of President Peron and her chief adviser, Lopez Rega.

The party's secretary general and second vice president have resigned their posts because the administration has failed to upgrade the importance of the party and left it out of the decision-making process. One of the officials recently told the US embassy that he has strong doubts about the government's intention to follow up on its earlier promise to him to "develop a strong party organization." The same official also said he fears the administration is primarily interested in consolidating the position of its inner circle.

The two officials represent differing factions within the Peronist movement. One favors cooperation with non-Peronist groups, such as the Radical Party, while the other is less inclined toward such dialogue.

The departure of the two officials is an especially hard blow to the party because both were fully within the mainstream of Peronism and had sought to cooperate with the administration. Their resignations will increase splits within the Peronist movement and could lead other disillusioned members to leave the party.

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LAOS

The US charge in Vientiane reports that tension has eased somewhat following the return of Americans to the AID and defense attache compound.

Disgruntled Lao employees of AID have been paid their overdue salaries. Severance pay has also been given to the 900-man Lao civilian guard force, which until recently had provided security for the property and personnel of the US mission. Americans are being permitted to enter and leave the compound freely, but all US vehicles—including those with diplomatic plates—are being stopped and searched by the "neutralized" capital's joint police force.

The Pathet Lao, meanwhile, are turning their attention to the matter of negotiating a new assistance agreement with the US. Under the terms they envision, the US will be expected to channel all future aid unconditionally and directly to the coalition government, which the communists now dominate.

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NORTH VIETNAM - THAILAND

A joint communique issued yesterday at the conclusion of discussions between North Vietnamese and Thai diplomats in Bangkok indicates that several problems must still be ironed out before diplomatic relations between the two countries can be established.

Although the communique states that the Thai delegation accepted an invitation to resume negotiations in Hanoi, a date has not yet been set. At the airport before his departure, North Vietnam's chief delegate, Vice Foreign Minister Phan Hien, would not elaborate on the details of the talks. He indicated, however, that formal relations with Bangkok might be established sometime within the next three months.

North Vietnam's delegation arrived in Bangkok nine days ago armed with some tough conditions for the establishment of diplomatic ties. Among the thorniest were Hanoi's insistence that Bangkok advance the timetable for the departure of US military forces, and that South Vietnamese military equipment taken into Thailand be returned to the new communist administration in Saigon. Hien's parting remarks at the airport suggest the US military presence is still the main stumbling block to normal relations with the Thai, but his reference to a three-month time frame indicates the problem is not insurmountable.

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